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Central Intelligence Agency



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China's Economic Debates: Impact on the United States

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Differences in Beijing over the direction of economic policy resulting from the fall of Hu Yaobang will probably complicate existing problems in Sino-US economic relations rather than create new ones.

US investors will be more wary of China given new political uncertainties:

- Businessmen already fault China's investment climate because of difficulties with profit remittances, labor costs, and regulatory hassles.
- New regulations enacted last October to improve the investment climate did little to resolve existing investor difficulties; conservative attacks on reform policies will scare businessmen and reduce China's ability to go beyond the October measures.

Pressure from conservatives in the Chinese government to correct bilateral trade deficits may aggravate existing friction with the United States over protectionism and other issues affecting China's balance of trade:

- Beijing's calculations of its trade accounts show a growing trade deficit with the United States that last year reached \$800 million, although Western accounting procedures give China a \$2.2 billion surplus.
- We expect Beijing to take a hard line with the United States in textile negotiations, and perhaps threaten retaliation if protectionist measures pass Congress.

Stymied economic reforms will slow China's accession to GATT:

- An apparent cooling-off on price reform policy will make it more difficult to assure China's compliance with the GATT framework.
- The internal economic debates will contribute to unpredictable changes in Beijing's management of China's foreign trade; but without clarification from Beijing on exactly how trade procedures work, GATT will be slow to accept such a large nonmarket economy.

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US export control policy toward China is a source of possible criticism:

- Despite plans to loosen such controls this year, a more liberal US export control policy for China will not end behind-the-scenes expressions of discontent about remaining restrictions. Public pressure for changes in export regulations will be muted by conservative attacks on China's poor record in assimilating foreign technology thus far.
- The United States may see a levelling off, perhaps even a falloff, in the dollar value of high-technology exports to China as conservatives resurrect themes of "self-reliance", although at least a streamlining of high-technology purchases was in the cards late last year.

For the Secretary of State's visit, we expect the Chinese to take a welcoming, nonconfrontational stance, probably laced with references to the differences between the two countries' economic and political systems. This and other meetings with US officials are likely places for the Chinese to define any new expectations for the Sino-US economic relationship:

- Beijing's private and public responses to the Secretary's scheduled announcement of changes in US export control policy for China will provide some indication of changes in Beijing's attitudes toward the bilateral relationship.
- Sino-US talks on textiles, postponed earlier, are now set for late February.
- Informal bilateral talks with the United States about China's accession to GATT have been under way since last October.
- Talks may resume on the bilateral investment treaty; negotiations have been stalled since last December with "nothing on the table."

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